



Citizen Commission for Performance Measurement of Tax Preferences
Written Testimony, Microbrewers Beer Excise Tax Preference
On Behalf of Washington Brewers Guild
September 10, 2020

On behalf of the Washington Brewers Guild, please accept these written comments as testimony for the record. The Washington Brewers Guild is a non-profit trade association representing Washington State's small and independent craft breweries.

We would like to take this opportunity to provide some additional insights as to the benefits of the beer tax preference for WA microbreweries that we believe were not captured in the JLARC report. Since the enactment of the beer tax preference for microbreweries, the Washington small and independent craft brewing industry has flourished, resulting in small family owned businesses – and the manufacturing and service jobs that come with them – opening and operating all across Washington State. Today, Washington is home to 430 breweries. These breweries directly employ over 6,300 people and our industry contributed \$1.4 billion to the state's economy in 2017.

The beer tax preference for microbreweries is a critical tool that small WA brewers employ to remain competitive with Oregon craft breweries. Oregon has a vibrant craft beer industry with a strong presence in the Washington market and OR breweries are a direct competitor of Washington's small brewers. Oregon's beer excise tax is significantly lower than Washington's. The beer excise tax rate in Oregon is \$2.60 per barrel sold, compared to the WA low rate for small breweries of \$4.78 per barrel and high rate of \$8.08 per barrel.

Craft breweries largely sell the majority of beer in their in-state, home market. Oregon breweries have greatly benefited from a low in-state tax rate in their primary market that has allowed them to reinvest at a higher rate than WA breweries and grow these capital-intensive operations, adding jobs and economic impact in Oregon, as beer production grows. In 2019, Oregon small and independent breweries produced 1,012,854 barrels of beer, nearly double the 536,956 barrels produced in the same year by WA breweries. These numbers are particularly significant, given Washington had a population of 7.615 in 2019, compared with Oregon's 2019 population of 4.218 million.

While the JLARC report rightly attributes that 86% of the direct savings from the microbrewers beer excise tax is realized by distributors at the point of sale where excises taxes are paid, the

report does not reflect the significant indirect benefit of those savings to Washington breweries working with a distributor partner. The savings incurred at the distribution tier reduce the overall cost of purchasing beer from a Washington brewer, which in turn helps reduce the overall cost of production for WA small brewers. The reduced tax rate for small brewers provides an incentive for distributors to work with WA breweries and has helped Washington brewers increase market share in Washington. Regardless of the fact the distributors are paying the excise tax at the point of sale, all Washington small brewers realize savings as a result of this tax preference.

The Brewers Association estimates that roughly a third of the value chain for beer is in production. Beer sold in Washington from out-of-state producers will generally have a third of the value chain accrue of beer sold in state, produced by Washington brewers. With regards to economic impact, the multiplier on production activities is typically larger than on activities related to the distribution and retailing of beer.

The microbrewers beer tax preference incentivizes beer production in Washington. This production has encouraged the creation and support of valuable manufacturing jobs and has further resulted in economic ripples through the state's economy supporting the state's agricultural sector and other supply chain industries.

We thank you for the opportunity to provide additional perspective as to how the microbrewers beer tax preference is contributing to the continued growth and viability of Washington small craft beer industry. We believe this tax preference to be a critical tool for Washington small brewers to remain competitive in the WA beer market, continue to increase beer production and jobs, and make significant contributions to the state's economy. We look forward to working with the Citizens Commission and legislators to preserve this meaningful incentive for Washington craft brewers.

Thank you for your time and consideration,

Annie McGrath
Executive Director
Washington Brewers Guild